

AR40



Great Canadian Oil Sands Limited

DIRECTORS

(as at December 31, 1973)

Alex E. Barron
Kenneth F. Heddon
Walter C. Huffman
Reginald D. Humphreys
Robert McClements, Jr.
William S. McGregor
Maurice B. Parmelee
W. Harold Rea
H. Robert Sharbaugh
J. Grant Spratt

OFFICERS

(as at December 31, 1973)

W. Harold Rea
Chairman of the Board
Kenneth F. Heddon
President
Reginald D. Humphreys
Vice-President and General Manager
Walter C. Huffman
Vice-President
Ardagh S. Kingsmill
Secretary
Maurice B. Parmelee
Treasurer
Anthony A. L. Wright
*Assistant Treasurer and
Assistant Secretary*

HEAD OFFICE

56 Wellesley Street West
Toronto, Ontario

TRANSFER AGENT AND REGISTRAR

The Canada Trust Company
110 Yonge Street, Toronto, Ontario
10150 100th Street, Edmonton, Alberta
239 8th Avenue S.W., Calgary, Alberta

SOLICITORS

Tilley, Carson & Findlay
Toronto, Ontario

ANNUAL MEETING

The Annual Meeting of Shareholders will be held in the Palliser Room, The Palliser Hotel, 133 9th Avenue S.W., Calgary, Alberta at 10:30 a.m. (Calgary Time) on Wednesday, June 19, 1974.

Report of the directors

to the shareholders
and employees

The Year in Review

The year 1973 saw a continuation of the production levels achieved in 1972 with synthetic crude volumes totalling 18,240,000 barrels, an average of 50,000 barrels per day. Revenues increased by about \$10 million as the average selling price for a barrel of synthetic crude advanced 64 cents



to \$3.95. Despite these positive factors, the company lost \$2,317,000 compared to \$680,000 lost in 1972. The higher loss reflects an extensive maintenance shut-down and the expiry, in March 1973, of the 50 per cent remission of Alberta Crown Royalty.

While the latter event increased your company's royalty payments by about \$3.7 million in 1973, the impact of the maintenance shutdown cannot be as accurately quantified. Maintenance shutdowns are expected to occur every other year and introduce into oil sands production a level of cost not experienced by the conventional producing industry. The shutdown last spring exceeded three weeks and its cost, gauged in terms of lost production plus actual shutdown expenses, had an aggregate impact estimated at \$6 million.

Along with the conventional oil producer, GCOS was subject to the export controls and export tax instituted by the Federal Government in September. Both measures hampered your company at a time when the need for funds was severe. Because of the high cost nature of our operations compared to that of the conventional producer relief was sought from both measures, without success.

Last year, capital expenditures reached \$17 million. A new conveyor with its associated equipment and routine conveyor extensions accounted for \$5.5 million. Spending on additional mobile equipment for the mine and on tailings handling totalled \$1.4 million and \$1.7 million respectively. Housing capital costs amounted to \$4.7 million.

The new conveyor system parallels the original system leading into the extraction plant and is improving the mine's ability to maintain a continuous flow of oil sand. The new system, like the original, can be fed by the bucketwheel excavator on either bench. As well, it is flexible enough to

receive feed from supplemental mining equipment.

Late in 1973, the Province of Alberta announced a favourable decision on the company's application to increase its authorized output from 45,000 to 65,000 barrels daily. When your company first applied for the increase, it was estimated that a relatively small expenditure of capital funds would be required to achieve substantially higher production. Subsequent operating experience now indicates the need for more comprehensive changes. As well, rapidly rising costs aggravate the situation. With engineering studies now underway, the final decision will depend on the economic return which can be expected from the expansion and the availability of the needed capital funds.

Once again we want to thank our employees for their contribution to the company's performance. In the final analysis, it is the employees, individually and collectively, who are the prime contributors to the successful evolution of an enterprise. GCOS is proud of the contribution made by the many people who comprise its work force.

Future Outlook

From the standpoint of plant operations, there are good reasons for optimism. While many problems remain, your company has learned to cope with them and minimize their effect on production. Nevertheless, from time to time, output will be limited because of weather or equipment malfunctions. These are facts with which GCOS and all prospective oil sands developers will have to live.

The recent agreement between the Federal and Provincial First Ministers established a new, higher price for conventional crude oil which enables GCOS to command a similar increase for its production. Inasmuch as there has been no change in the GCOS Crown Royalty rate, the improved price will have a significant effect on the company's financial position and should permit a reduction in the accumulated deficit of over \$90 million. Nevertheless, the new price still falls short of the amount required to provide our shareholders an adequate return on their investment.

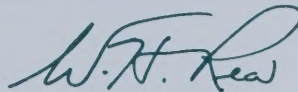
Over the past difficult years, your company has received support and assistance in various forms from Sun Oil whose faith

in the undertaking and in the GCOS staff has been extremely important. For example, Sun Oil Company Limited continues to waive completely all of its share of royalties from the sublease agreement with your company. We must be mindful of the fact that such support and assistance will not continue indefinitely. As the impact of the price increases becomes clearer and the rate of deficit reduction can be better assessed we will be reviewing these and other matters in the light of the need to meet all of our obligations.

Capital expenditures planned for 1974 have been budgeted at \$23.3 million. Among the major items is new mining equipment expected to cost \$6 million. Of that amount, \$2.3 million has been earmarked towards the purchase of an additional bucketwheel excavator for overburden removal. About \$1 million have been set aside for the extraction plant with the process area slated for a like amount. To improve the facilities for the service and administrative functions, approximately \$3 million have been budgeted.

In its efforts to provide a high standard of housing for its employees, your company has spent or budgeted \$14.7 million for the two year period 1973-4, \$10 million of which are budgeted for 1974. Last year, a project involving 154 housing units was begun and completion is expected by July of this year. A further 165 units are planned for 1974. These units form part of a new subdivision on the west bank of the Athabasca River. All are architecturally designed to provide variety and beauty to the subdivision.

Over the past year, interest in the oil sands has quickened and large-scale development now seems assured. Supported by Sun Oil Company, GCOS has developed a bank of viable oil sands technology which it is prepared to sell to new operators. The availability of the GCOS technology should help smooth the road for those who come behind us and also assist in maintaining Canada's position in the forefront of non-conventional crude oil production. In short, without the pioneering effort of your company, we estimate that Canada would still be five to six years away from commercial development of the oil sands.

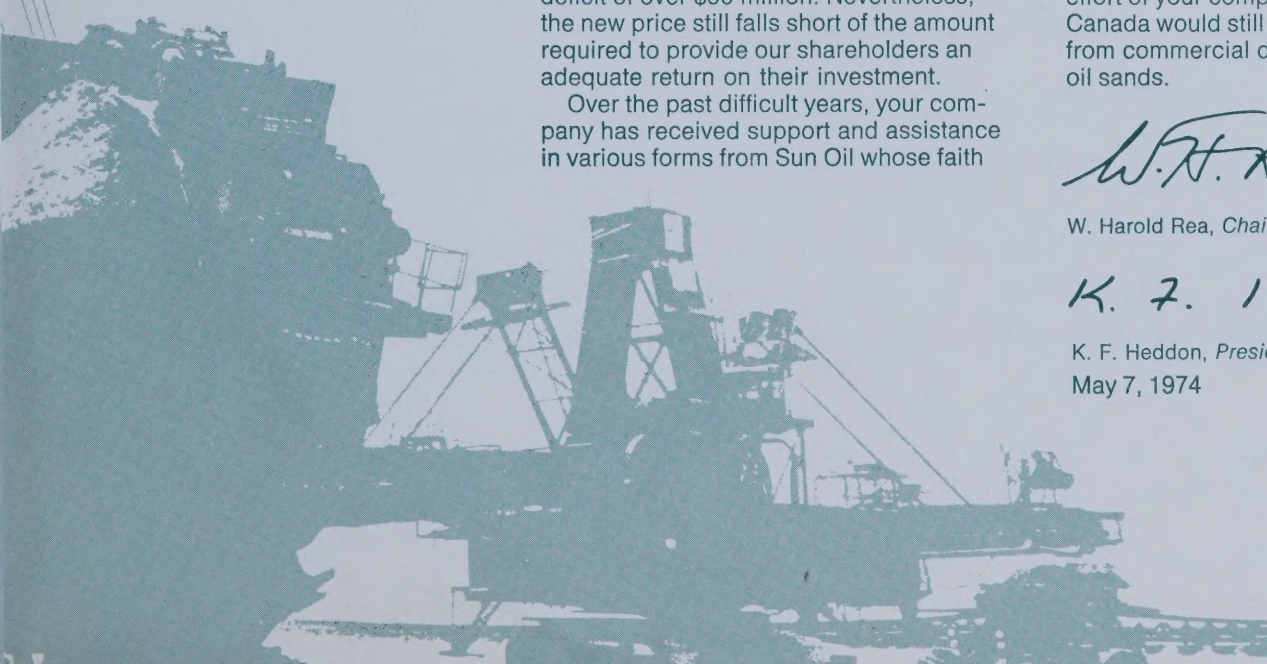


W. Harold Rea, *Chairman of the Board*



K. F. Heddon, *President*

May 7, 1974



Consolidated Balance Sheet

December 31, 1973

(with comparative figures as at December 31, 1972)

Great Canadian Oil Sands Limited

(incorporated under the laws of Canada)

Assets

	1973	1972
Current:		
Cash	\$ 245,000	\$ 115,000
Accounts receivable —		
Trade (note 3)	8,104,000	5,645,000
Other	685,000	511,000
Inventory of finished product, at estimated net realizable value	1,755,000	1,809,000
Inventory of material and supplies, at the lower of cost and net realizable value	8,402,000	8,005,000
Prepaid charges	1,762,000	883,000
Total current assets	20,953,000	16,968,000
Plant facilities and housing (note 5):		
Plant, buildings and equipment, at cost	220,498,000	207,967,000
Less accumulated depreciation	35,883,000	27,138,000
	184,615,000	180,829,000
Housing —		
Rental housing units, at cost (less accumulated depreciation 1973 — \$417,000; 1972 — \$488,000)	388,000	723,000
Housing under construction and serviced lots, at cost	3,588,000	1,286,000
Housing units to be sold under long-term instalment sale agreements with employees, at the lower of cost or selling price	1,429,000	627,000
Accounts receivable under long-term instalment sale agreements for housing units sold to employees, less current portion included in accounts receivable — other (note 8)	14,888,000	13,252,000
Total plant facilities and housing	204,908,000	196,717,000
Deferred costs (note 5):		
Deferred development, preproduction and start-up costs, less write-offs and amortization	57,927,000	60,107,000
Deferred overburden removal (stripping) costs	14,208,000	14,632,000
Total deferred costs	72,135,000	74,739,000
	\$297,996,000	\$288,424,000

On behalf of the Board:

W. H. REA, Director

M. B. PARMELEE, Director

(See accompanying notes)

Liabilities

	1973	1972
Current:		
Bank loans	\$ 5,000,000	\$
Short-term notes	10,000,000	
Accounts payable and accrued charges (note 3)	10,872,000	8,127,000
Current portion of long-term debt	2,456,000	2,479,000
Demand loan payable to Sun Oil Company		5,800,000
Total current liabilities	28,328,000	16,406,000
Long-term debt, less amounts due within one year (note 6):		
6% unsecured debentures (Alberta issue) due May 15, 1975	12,355,000	12,363,000
5¾% notes due July 1, 1991 (1973 — U.S. \$42,000,000; 1972 — U.S. \$44,000,000) translated at exchange rates prevailing at date of issue	45,166,000	47,317,000
6¼% - 9¾% mortgages payable on houses sold and to be sold and rental housing units (repayable over terms up to thirty years)	11,161,000	9,065,000
Total long-term debt	68,682,000	68,745,000
Total liabilities	97,010,000	85,151,000

Shareholders' Equity

Capital (note 7):

Authorized —

- 2,000,000 Voting Preferred Shares of \$100 par value each consisting of
 - 500,000 First Preferred Shares
 - 500,000 Second Preferred Shares
 - 450,000 Third Preferred Shares
 - 550,000 Fourth Preferred Shares, issuable in series
- 35,000,000 Common Shares without nominal or par value

Issued —

7% Non-Cumulative Redeemable (at par) Preferred Shares		
500,000 First Preferred Shares	50,000,000	50,000,000
500,000 Second Preferred Shares	50,000,000	50,000,000
450,000 Third Preferred Shares	45,000,000	45,000,000
200,000 Fourth Preferred Shares, Series A	20,000,000	20,000,000
28,504,039 Common Shares (1972 — 28,495,833 shares)	126,229,000	126,199,000

291,229,000 291,199,000

Deficit

(90,243,000) (87,926,000)

Total shareholders' equity 200,986,000 203,273,000

\$297,996,000 \$288,424,000

(See accompanying notes)

Consolidated Statements of Income and Deficit

For the year ended December 31, 1973
(with comparative figures for 1972)

Income

	1973	1972
Revenue:		
Value of synthetic crude and other products produced for sale	\$ 72,013,000	\$ 61,644,000
Other		640,000
	72,013,000	62,284,000
Costs and expenses:		
Costs, operating, administrative and general expenses (note 5)	59,485,000	48,713,000
Amortization of deferred development, preproduction and start-up costs (note 5)	2,180,000	2,336,000
Depreciation (note 5)	7,896,000	7,892,000
Interest — bank loans and short-term notes	606,000	
— long-term debt	4,163,000	4,023,000
	74,330,000	62,964,000
Net loss for the year	\$ 2,317,000	\$ 680,000

Deficit

Balance, January 1	\$ 87,926,000	\$ 87,246,000
Net loss for the year	2,317,000	680,000
Balance, December 31	\$ 90,243,000	\$ 87,926,000

(See accompanying notes)

Consolidated Statement of Changes in Financial Position

For the year ended December 31, 1973
(with comparative figures for 1972)

	1973	1972
Source of funds:		
From operations —		
Net loss for the year	\$ (2,317,000)	\$ (680,000)
Add expenses not requiring an outlay of working capital during the period:		
Depreciation (note 5)	7,896,000	7,892,000
Amortization of deferred development, preproduction and start-up costs (note 5)	2,180,000	2,336,000
Net reduction in deferred overburden removal costs (note 5)	1,400,000	2,163,000
Total funds from operations	9,159,000	11,711,000
Mortgages on houses (net)	2,096,000	1,113,000
Issue of common shares	22,000	
Federal sales tax remission (credited to fixed assets)		6,000,000
	11,277,000	18,824,000
Application of funds:		
5¾% notes maturing within one year	2,151,000	2,151,000
Plant facilities and housing	17,063,000	10,062,000
	19,214,000	12,213,000
Increase (decrease) in working capital	\$ (7,937,000)	\$ 6,611,000
Changes in components of working capital:		
Increase (decrease) in current assets —		
Cash	\$ 130,000	\$ (105,000)
Accounts receivable — trade	2,459,000	1,162,000
— other	174,000	166,000
Inventory of finished product	(54,000)	742,000
Inventory of material and supplies	397,000	1,905,000
Prepaid charges	879,000	(155,000)
	3,985,000	3,715,000
Decrease (increase) in current liabilities —		
Bank loans	(5,000,000)	
Short-term notes	(10,000,000)	
Accounts payable and accrued charges	(2,745,000)	(637,000)
Current portion of long-term debt	23,000	(67,000)
Notes payable to Sun Oil Company	5,800,000	3,600,000
Increase (decrease) in working capital	\$ (7,937,000)	\$ 6,611,000

(See accompanying notes)

Notes to Consolidated Financial Statements

December 31, 1973

1. Basis of statement presentation

The accompanying financial statements are prepared on a consolidated basis to include the accounts of Great Canadian Oil Sands Supply Limited, a wholly-owned subsidiary.

2. Authorized production

During 1973 the Province of Alberta approved the company's application to increase its authorized production of synthetic crude oil to 23,725,000 barrels per year (65,000 barrels per day) from 16,425,000 barrels per year (45,000 barrels per day).

3. Accounts with affiliated companies

Included in accounts receivable and accounts payable are the following accounts receivable from, or payable to, Sun Oil Company (parent company) and its affiliates:

Accounts receivable	\$3,320,000
Accounts payable and accrued charges	\$ 629,000

4. Estimated reserves

For the purposes of determining the amounts of certain depreciation and amortization in the accounts, the remaining reserves of synthetic crude oil at December 31, 1973 have been estimated at 490,000,000 barrels. The actual quantity capable of economic recovery will not be known until the sands are fully mined and processed and will depend in part upon the future relationship between synthetic crude selling prices and operating costs.

5. Depreciation of plant facilities and housing and amortization of deferred costs

The company's productive facilities are being depreciated using a unit of production method based on estimated reserves. Furniture and fixtures and mobile equipment are being depreciated over their estimated useful life periods ranging from two to ten years. Rental housing units are being depreciated over five years (trailers) and twenty-five years (buildings). Deferred

development, preproduction and start-up costs are being amortized against income using a unit of production method based on estimated reserves. Deferred overburden removal (stripping) costs are being charged to production on the basis of the area actually mined.

The depreciation provision for the year ended December 31, 1973 excludes depreciation of \$1,345,000 (1972 — \$1,512,000) on overburden removal equipment which was charged to deferred overburden removal (stripping) costs. On the other hand, operating costs for the period include \$976,000 (1972 — \$621,000) (based on the area mined) in respect of depreciation previously charged to this deferred account.

6. Long-term debt

(a) 6% unsecured debentures (Alberta issue):

These debentures, which mature on May 15, 1975, comprise the following:

Debentures which are partially convertible (of which \$4,243,700 are held by Sun Oil Company Limited)	\$12,111,600
Debentures in respect of which the partial conversion privilege has been exercised	243,644
	<u>\$12,355,244</u>

Subject to certain terms and conditions, \$32 of each \$100 principal amount of the partially convertible debentures may, at any time before May 1, 1975, be applied to the purchase of and converted into two fully paid and non-assessable common shares of the company.

Holders resident in Alberta of unconverted debentures may require Sun Oil Company Limited to purchase, before April 1, 1975, their debentures at par plus accrued and unpaid interest.

(b) 5¾% notes due July 1, 1991:

The terms of the 5¾% notes require annual prepayments on July 1 of U.S. \$2,000,000. The company is permitted to make optional additional annual payments of up to U.S. \$2,000,000 commencing July 1, 1976 without premium. Prepayments in excess of the foregoing may in certain circumstances be made at 105.75% to June 30, 1976 and at reducing percentages thereafter.

7. Share capital — common shares

During the year 706 shares were issued upon partial conversion of certain of the 6% unsecured debentures (Alberta issue) and 7,500 shares were issued for \$3 cash per share under an option granted in a prior year to a director. There are 242,232 shares reserved for possible issuance in future upon the partial conversion of the remaining debentures.

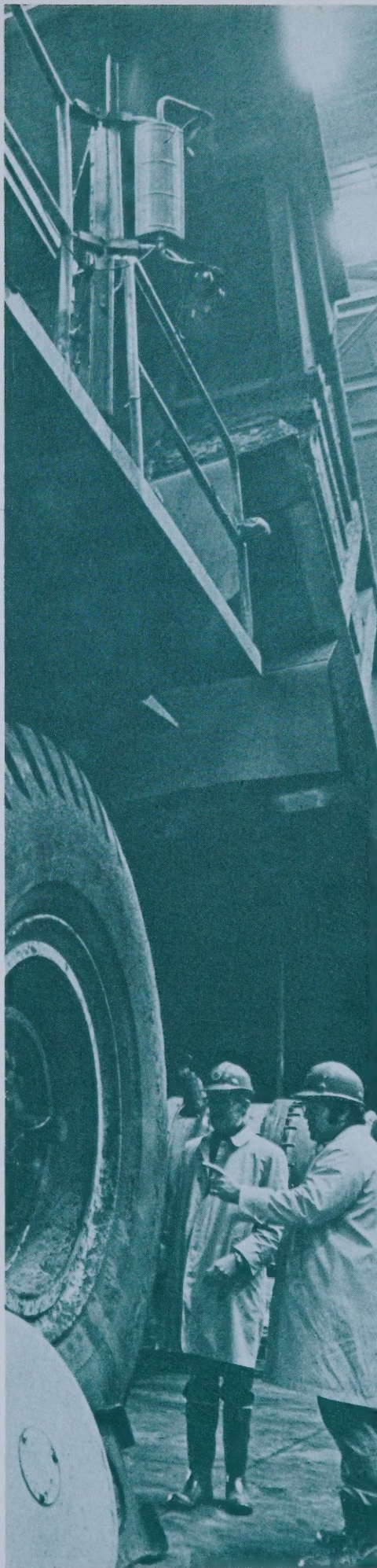
8. Commitments and contingent liabilities

(a) The company is a party to an agreement with Sun Oil Company Limited and Abasand Oils Limited involving the sublease of Bituminous Sands Lease No. 86 in respect of which the company is operating its plant. Lease No. 86 runs for a term of twenty-one years from June 1, 1966 renewable for further terms each of twenty-one years so long as the plant is in operation and subject to such terms and conditions as may be prescribed at the time renewal is granted.

The annual rental is \$1 per acre. Under this agreement the company has also assumed an indebtedness to the Government of Canada of \$1,802,107 in respect of certain wartime expenditures in the Athabasca Tar Sands area. Principal payments on this debt have been deferred on an interest free basis until 1978. As the company is hopeful of obtaining relief from this debt, no provision for this amount has been recorded in the accounts of the company.

(b) In addition to crown royalties payable on production, the company is obligated to pay Sun Oil Company Limited and Abasand Oils Limited (under the provisions of the sublease agreement referred to in (a) above) a basic royalty of 10¢ per barrel of bitumen extracted or recovered from bituminous sands from the leased land, together with an additional royalty of 25% of synthetic crude revenues in excess of \$2.75 per barrel (declining to \$2.60 in the future under certain conditions), and subject to a 50% increase in both royalties after the company's cash flow has equalled its total initial investment. Such royalties are payable 75% to Sun and 25% to Abasand.

As from April 1, 1973 the company commenced paying 100% of the portion of the lease royalty due to Abasand, following the expiration of a three year term during which Abasand waived 50% of its share of the royalties. Effective April 1, 1970 Sun has waived 100% of its share of the royalties until the earlier of the elimination of the



company's deficit account or a determination that the financial results from the company's operations are satisfactory.

Effective April 1, 1973 the company also commenced paying 100% of the crown royalties to the Government of Alberta, following the expiration of a three year period during which the company was granted a remission of 50% of crown royalties otherwise payable.

(c) Under the provisions of the sale agreements covering the sale of housing units to employees, the company has undertaken, in the event of employee termination within ten or twelve years of the date of the sale agreement, to repurchase the employee's housing unit. The potential net outlay under such repurchase commitments at December 31, 1973 would amount to approximately \$922,000.

(d) The company is a party to long-term agreements with Sun Oil Company Limited and with Shell Canada Limited pertaining to the sale of synthetic crude oil.

(e) The company's unfunded past service pension liability at December 31, 1973 is estimated at approximately \$360,000. This amount is being funded and charged to income over a period of sixteen years.

9. Directors and officers

Twelve persons were directors of the company during 1973, only certain of whom were paid as such, and their remuneration aggregated \$14,750. Nine persons were officers during 1973, only certain of whom were paid as such; remuneration of officers and past officers aggregated \$89,347. Six officers were also directors.

10. Net loss per common share

The net loss per common share amounted to \$0.08 in 1973 and \$0.02 in 1972. These amounts were calculated using the weighted average method for shares issued during the year. No adjustment has been made in the calculations for dividends on outstanding preferred shares as dividends on these shares are non-cumulative and none have been declared or paid to date. If the calculations were to assume the payment of a dividend of 7% on the preferred shares, the net loss per common share would have been \$0.49 in 1973 and \$0.43 in 1972.

To the Shareholders of Great Canadian Oil Sands Limited:

We have examined the consolidated balance sheet of Great Canadian Oil Sands Limited and its subsidiary as at December 31, 1973 and the consolidated statements of income and deficit and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1973 and the results of their operations and changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

CLARKSON, GORDON & CO.

*Chartered Accountants.
Edmonton, Canada,
January 18, 1974.*

This past year



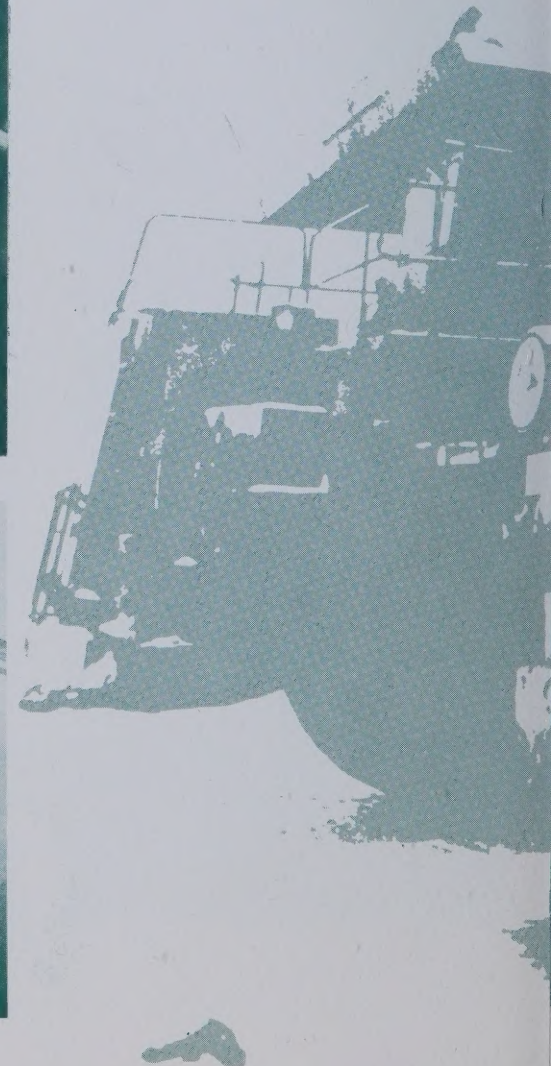
(Right) During the year, more than 10 million cubic yards of overburden were excavated and transported.

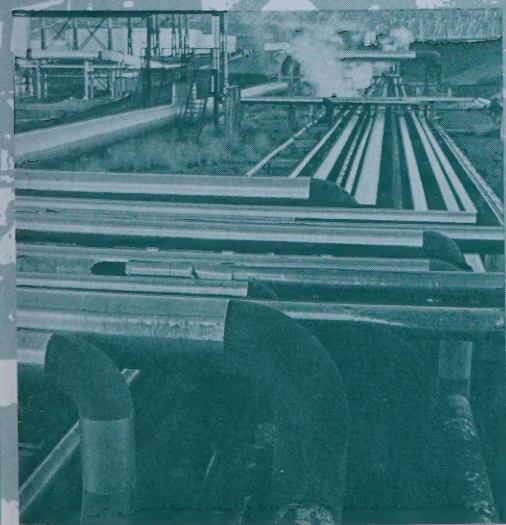
(Left) Busy, highly organized maintenance facilities keep mining vehicles at high levels of availability.

(Below left) Major project completed in 1973 was an additional conveyor (on the left) to feed the extraction plant.

(Below right) Complex array of piping conveys materials to various parts of process area and storage tanks.

(Far right) During 1973, the 1600 men and women working at the GCOS plant received more than \$24 million in wages and salaries.





Great Canadian Oil Sands Limited



"Pioneering Oil Sand Development"